

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

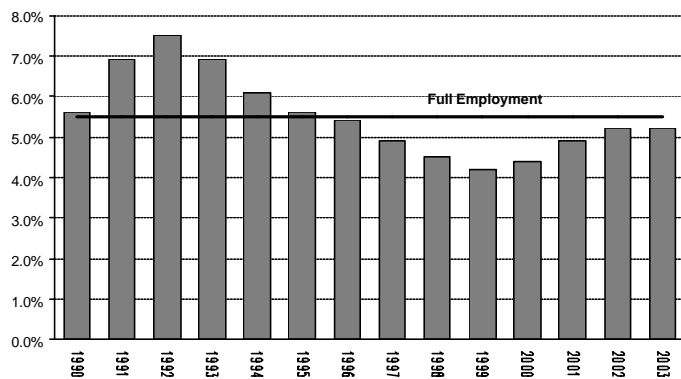
STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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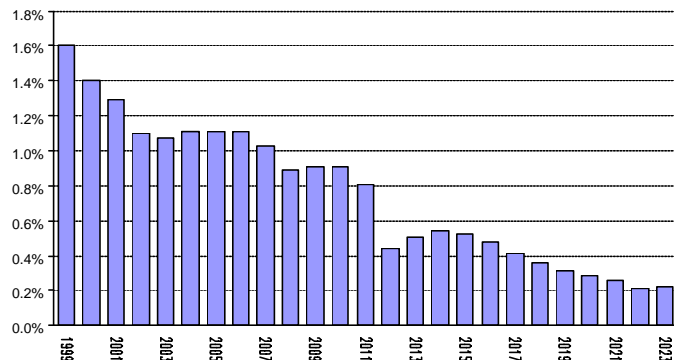
Buddy, can you spare a worker? The longest U.S. peacetime economic expansion has whittled away most of the fat from the nation's labor supply. While the best job market in nearly a generation is a boon for workers, it has crimped business expansion plans. No longer can companies count on a labor supply that, until a few years ago, seemed limitless. The civilian unemployment rate slipped under 6.0% (the old measure of full employment) in late 1994, and has fallen steadily since then. At just above 4.0%, the current unemployment rate is below almost everyone's estimate of full employment. After about four years of tightening, the labor pool has virtually dried up. This is especially true of highly trained/educated workers. For example, the unemployment rate for college graduates has been below 2.0% since October 1997. In an effort to lure these highly sought after persons into their folds, many companies now dangle stock options in front of potential hires and reward current employees who recruit new employees with bonuses. Even the traditionally harder to place individuals have enjoyed unprecedented success. The unemployment rate for individuals without a high school diploma has dropped to 6.1%—its lowest level ever. As a result, many entry-level openings have gone begging. Given this drop, it is no surprise that some fast food restaurants now use application forms for place mats and only take down their "Now Hiring" signs because of sun damage. It doesn't seem likely that the labor market will slacken much over the next few years. Although the economy should cool, the number of new entries into the labor force should slow as the baby-boom generation makes way for the baby-bust generation. While it is believed the unemployment rate should rise through 2003, it will remain below the 5.5% full-employment threshold. So for the next few years, things should remain tough all over—for employers, that is.

U.S. Civilian Unemployment Rate



Source: Standard & Poor's DRI

U.S. Labor Force Growth Rate



Source: Standard & Poor's DRI

Jobs in the long run. Part of the current labor market tightness is due to the booming economy. However, the current labor situation is also partially shaped by other factors. An examination of several trends suggests that labor markets are likely to remain relatively tight over the next two decades as labor force growth slows. The labor force expanded at a healthy 1.9% annual pace from 1970 to 1998. Growth was especially strong during the 1970s, when the labor force expanded 2.6% annually. Part of this trend was due to the flood of women entering the labor force, and part of it was due to the dynamics of the baby-boom generation. From 1948 to 1979, the number of people turning 18 each year nearly doubled from 2.3 million to 4.3 million. Needless to say, these two factors will play important roles in the future of the nation's labor force. Current projections suggest the labor force will grow slower over the next 20 years. First, the participation rate of women in the labor force should taper off as it approaches the rate for males. Second, the adult population will grow more slowly. Third, a growing share of the population will retire. Or, put another way, the share of the working-age population (16 to 65) will decline from about 87.0% in 1960 to around 77.0% in 2020. As a result, DRI predicts the labor force will grow just 1.2% per year from 1998 to 2003, 0.9% from 2003 to 2013, and 0.4% per year thereafter. As a result, in order for output to grow, the productivity of the labor force must increase or the size of the labor force must expand faster than projected. One method to improve productivity would be to increase the amount of capital each worker uses. It should be pointed out that not only will the workers have more equipment to work with, but this equipment will become increasingly sophisticated. For example, there are enough electronics in your local drive-in to make it seem more like mission control than a fast food restaurant. Thus, the skill levels of all employees will also have to be higher.

DIRK KEMPTHORNE, Governor

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General Fund Update

As of April 30, 1999

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY99 Executive Estimate³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	818.6	743.8	766.7
Corporate Income Tax	110.4	87.6	74.6
Sales Tax	577.6	480.8	488.9
Product Taxes ¹	15.7	13.0	13.2
Miscellaneous	73.6	43.0	43.3
TOTAL GENERAL FUND²	1,595.9	1,368.2	1,386.7

¹ Product Taxes include beer, wine, liquor, and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 1999

General Fund revenue was \$3.8 million above the target for April. The principal area of strength was in the Individual Income Tax revenue category. Corporate Income Tax collections in April were the weakest category by a wide margin, off \$4.9 million for the month of April. General Fund revenue is now \$18.5 million ahead of the predicted level for the fiscal year to date.

Individual Income Tax collections were \$10.5 million higher than expected for the month of April, making this the second consecutive month of record excess collections in FY 1999. This excess is mostly due to higher-than-expected filing and withholding collections (\$5.6 and \$3.7 million, respectively). Lower-than-expected refunds also contributed to April's excess collections, but by a much smaller \$0.8 million.

Corporate Income Tax collections reverted to the poor performance evident through most of FY 1999, with \$4.9 million less revenue than was expected for April. Strong filing collections (ahead by \$3.5 million) were only able to partially offset an \$8.1 million shortage in April's quarterly estimated payments. Refunds were also a little higher than expected for April, further exacerbating the month's weakness.

Sales Tax collections turned in their third consecutive month of favorable performance in April, exactly duplicating March's \$0.7 million gain over the target. This brings the year-to-date excess to \$8.1 million. Continued strong economic performance since the beginning of this calendar year is behind the recent strength in this revenue category.

Product Taxes were again \$0.1 million above target in April, but Miscellaneous revenues were \$2.6 million lower than expected. The Miscellaneous revenue weakness was primarily due to low interest earnings. Since interest earnings are recorded on a cash basis, the maturity dates of Idaho's investment portfolio can cause large (and unpredictable) swings in the recorded interest earnings.